It´s All About Asset Allocation

March 2021, Newsletter#59

Dear;

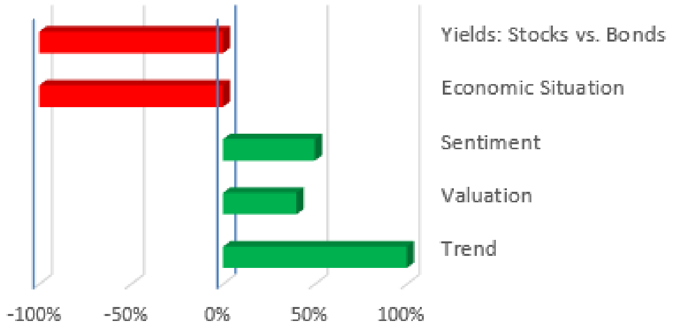
A faster economic reopening could be a double-edged sword for the stock market. Even with quantitative easing, the combination of faster economic growth and a near-zero fed funds rate could mean that long-term rates climb from historically low levels. Up to this point in the recovery, **rising long-term rates have been viewed as bullish, since they reflect improving economic conditions**. If the correlation between stock prices and bond yields turns negative, it would signal a shift in thinking to markets interpreting rising bond yields as an inflationary threat. Similarly, the steepening yield curve has been viewed as a positive for equity markets. But, the US 10-2 yield curve is approaching the 150-basis point level that has been less bullish for stocks. In fact, the speed of any interest rate increases could be as important as the level. A quick break above 150 basis points in the 10-2 spread would be more bearish than a gradual move throughout the year.

As long as yields are rising for the right reasons such as increased confidence in the outlook, progress on vaccine deployment, and additional fiscal support, **FOMC participants and now the ECB seemed unconcerned**. In the last appearances, Fed Chair Powell called the rise in bond yields a "statement of confidence" and last week, he said monetary policy will remain accommodative although inflation will likely pick up temporarily in the coming months. Meanwhile, ECB officials saw no need for drastic action such as increasing the PEPP to prevent bond yields from rising. The Fed is very interested in the smooth functioning of the Treasury market so they could purchase more bonds if markets are illiquid. They are not opposed to higher yields – they just want the market to be orderly.

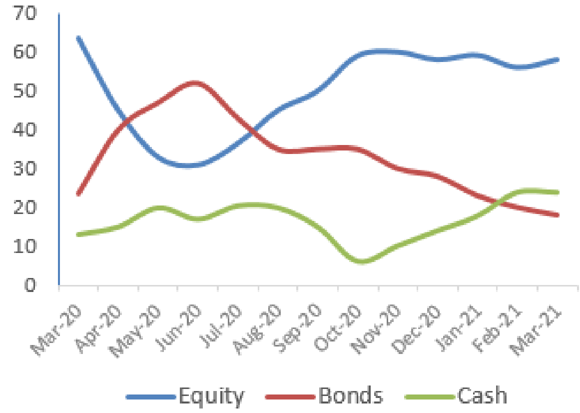
Our Global Flexible Fund, fLAB Core H USD, finished February at +0.83%. For March, our Asset Allocation model gives the following reading: 58% stocks, 18% government bonds and 24% in cash. Relative strength indicators continue to support equities over bonds and cash for the remaining part of the portfolio. Our bond/cash trend model has now flipped into the latter.

fLAB Core Asset Allocation Model		March 2021	Benchmark
	Stocks	**58%**	55%
	Bonds	**18%**	35%
	Cash	**24%**	10%

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



red (bond & cash preference) green (equity preference)



Equity Regional Allocation vs MSCI World AC			
Emerging Markets	*OW*	*UK, Japan & Pacific Ex-Japan*	*UW*
Benchmark (US 57%, Eur 13.4%, Emerg Mk 12%, Jap 7.1%, UK 4.3%, Pacific 3.3%, Can 2.9%)			

Equity World Sector Allocation			
Industrials & Financials	*OW*	*Consumer Staples*	*UW*

Government Bond Allocation vs Barclays Global Government Bond Index			
Euro	*OW*	*US*	*UW*

Global Equity markets kick off February strong until yields started to take traction across regions and the curves get steeper thus eroding some equity gains. The technology sector was one of the most affected. Conversely Value Cyclical sectors such as Financials, Energy, and Industrials benefited from a steeper yield curve and prospects of faster economic growth. Responding to a leadership shift, technical models, the interest rate environment and economic conditions we are shifting from neutral to favoring value on a tactical basis. The potential for additional economic strength provides a stronger and more sustainable backdrop for cyclical Value sectors than in previous interest rate tantrums. Regarding our fixed income allocation and according to our market view, we are now very defensive: with a very low exposure (18%) and underweighted in terms of duration (5.52 for the bond portfolio), 1.01 for the overall fund. On a geographical basis, we continue underweight Treasuries and slightly overweight in Europe. During this month, we have increased real dollar allocation from 14% up to 21%, and we will continue to be flexible on this matter.

Our Relative Return Fund, fLAB Satellite, is -0.20% YTD. The compartment is now invested 54% in a low risk diversified fixed income portfolio plus 22% in some decorrelated and tactical positions, being the rest in cash. In February, both the fixed income allocation part (which was been low risk and low duration) and the tactical bets suffered from market volatility and higher rates. In this framework, we have neutralized the fund duration (from 1.79 to -0.20) and remain vigilant on market developments for further adjustments. Within our tactical portfolio, we have sold half of our Gold exposure (now at 2.3%) and increased our dollar position up to 12%. We continue to hold 11% in equities multistrategy, 5% in short credit High Yield and 3.5% in global commodities.